Securities Industry Trends

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AN ANALYSIS OF EMERGING TRENDS IN THE SECURITIES INDUSTRY
Produced by the SIA Research Department

A8825-1

Vol. XII, No.5 May 1, 1986

SIA TRENDS FLASH....1986's STELLAR START

Individual firm first quarter reports and gut reactions have already fostered much speculation that this year's first quarter smashed plenty of records (and with a big hammer) for the securities industry. Speculation is no longer needed.

The first quarter is now THE record quarter for securities industry profits based on preliminary data which represents the majority of the industry's revenues and profits. This data shows a torrid level of business for the first quarter.

Based on the top 15 NYSE firms doing a public business (which in recent times account for about half of all revenues) the industry posted a $2 billion first quarter pre-tax net profit. That is a third better than 1985's then second best ever quarterly showing of $1.5 billion in Q4; is half of all of full year 1985's pre-tax profits ($4 billion); and is even 25% better than the previous $1.6 billion quarterly record profit turned in during the final three months of 1982.

This $2 billion industry pre-tax net income projection was determined by comparing the top 15's share of total industry revenues, expenses and profits for full year 1985 and fourth quarter 1985 and applying those comparisons to the 15's showing in this year's first quarter. The $2 billion is an average of the four methods described below and is probably conservative since higher showings are reflected in the fourth quarter bull market of which this year's first quarter is very similar. The first quarter was not only similar, but even better based on many factors including individual firm's quarterly reports, market indices and corporate financing record activity.

Comparing on the annual basis, the industry shows estimated first quarter revenues of $12.6 billion. This is derived by applying the top 15 firms' 1985 46.5% share of all revenues to their 1986 Q1 $5.9 billion record revenue showing. Likewise, by applying their 1985 share of expenses to their $5.2 billion

1986 Q1 expenses, the industry is projected to incur $10.9 billion of expenses in Q1. That leaves a pre-tax industry profit of $1.7 billion for the first quarter. If we apply the top 15's 38.5% share of pre-tax profits last year to their $680 million Q1 pre-tax showing, the industry's pre-tax profit projection rises slightly to $1.8 billion.

But projections based on the top 15's 1985 fourth quarter share of revenues, expenses and profits, which as said was more indicative of the first quarter's atmosphere, show industry profits at a much higher level. Industry revenues jump to $13.5 billion based on the share the top 15 garnered in last year's final quarter. In the same manner, expenses amount to $11.3 billion. That leaves a $2.2 billion first quarter pre-tax net income for the industry. Even higher, based on the 27.5% share of pre-tax net the top 15 gleaned in 1985 Q4, total industry before tax profits rise to $2.5 billion.

Averaging the four projected profit figures out gives us a new record $2 billion pre-tax profit for the securities industry in this year's very fine first quarter.

Again, with all the favorable reports issued for the quarter, the $2 billion may prove to be conservative and the higher $2.5 billion projection could become the industry's new quarterly record profit benchmark.

PROJECTED 1986 Q1 SECURITIES INDUSTRY PROFITS
(In $ Millions)

	Top 15	Actual Industry	%	Top 15	Projected Industry*
	BASED ON Q4 1985			Q1 1986	
REVENUES	5,050	11,597	43.5	5,863	13,478
EXPENSES	4,643	10,123	45.9	5,184	11,294
PRE-TAX NET	-	-	-	-	2,184
PRE-TAX NET**	406	1,474	27.5	680	2,473
	BASED ON FULL YEAR 1985				
REVENUES	17,964	38,621	46.5	5,863	12,609
EXPENSES	16,371	34,481	47.5	5,184	10,914
PRE-TAX NET	-	-	-	-	1,695
PRE-TAX NET**	1,592	4,140	38.5	680	1,766
AVG PRE-TAX NET					2,030

* Applies the prior period Top 15 share of market to their Q1 1986 results. Also, subtracts projected expenses from projected revenue.
** Differences due to rounding.

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